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RUCPDO/DEPT OF COMMERCE WASHDC  
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RHEBAAA/DEPT OF ENERGY WASHDC  
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STATE FOR A/S SHANNON  
STATE FOR WHA/MEX, WHA/EPSC, EB/IFD/OMA  
STATE FOR EB/ESC MCMANUS AND IZZO  
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/ARUDMAN  
USDOC FOR ITS/TD/ENERGY DIVISION  
TREASURY FOR IA (ALICE FAIBISHENKO)  
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND SLADISLAW  
STATE PASS TO USTR (EISSENSTAT/MELLE)  
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)  
NSC FOR DAN FISK

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SUBJECT: MEXICO ECONOMIC WEEKLY, MAY 4-11, 2007

REFL (A) 06 Mexico 3905; (B) 06 Mexico 1080

¶1. (SBU) Summary: Inflation fell in April, despite price increases for some commodities. President Calderon is exploring how to proceed with fiscal reform. The United States and Mexico held the inaugural meeting of the U.S.-Mexico Consultative Committee on Agriculture, and discussed implementing the final NAFTA provisions on agricultural products. A planned teachers' strike failed to gain the support it had hoped for. A major bond sale by the state of Hidalgo went off successfully. On May 21, the Supreme Court will publicly broadcast one of its sessions considering changes to the controversial April 2006 telecommunications and broadcasting law, dubbed the 'Televisa Law' because it favored Mexico's powerful telecom and broadcasting oligopolies. End Summary.

Inflation Falls in April

¶2. (U) Consumer price inflation fell 0.06% in April, lowering the annual inflation rate to 3.99% from 4.21% in March. The drop, which was in line with market expectations, brought inflation below the upper limit of what the central bank considers acceptable. A Bank of Mexico (BOM) report said that lower electricity prices in two northern states as well as lower prices for onions and tourist services pulled consumer prices down, despite an increase in the price of tomatoes and rent. Core inflation fell from 3.83% in March to 3.66%.

Political Maneuvering Over Fiscal Reform

¶3. (U) President Calderon and members of his administration in recent weeks have been meeting with Congress to build support for fiscal reform. As the PAN lacks a majority in Congress, it will need PRI support to pass the initiative. PRI representatives

have suggested to the press that they would only support the reform if more funds are released to the states (the PRI controls 53% of Mexican states). PRI officials also have said they want the Agriculture, Development, and Environment Secretariats at the state level decentralized. The PAN is likely to balk at both proposals. Meanwhile, PAN Senator Gustavo Madero, the head of the Senate Finance Committee, called for levying the VAT on food and medicine -- a move that the PRI has said publicly it will not support. Movement in the debate is unlikely to come before State of Yucatan elections on May 20.

#### Opening Final NAFTA Chapters on Agriculture

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¶4. (U) The United States and Mexico held the inaugural meeting of the U.S.-Mexico Consultative Committee on Agriculture (CCA) May 8, following renewal of the bilateral forum by the two governments in March 2007. Mark E. Keenum, Under Secretary for Farm and Foreign Agricultural Services of the U.S. Department of Agriculture, and Ambassador Richard T. Crowder, Chief Agricultural Trade Negotiator of the Office of the U.S. Trade Representative, led the U.S. delegation. Under Secretary Beatriz Leycegui of the Ministry of the

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Economy (Economia) and Under Secretary Francisco Lopez Tostado of the Ministry of Agriculture, Livestock, Rural Development, Fisheries, and Food Supply (SAGARPA) led the delegation from Mexico. Key among the issues discussed was full implementation of the remaining NAFTA provisions on opening trade in North America's corn, bean, milk, and sugar sectors. Among other

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outcomes, the parties agreed to conduct several technical assistance projects in Mexico in the corn and dry bean areas to help prepare Mexican producers for NAFTA implementation. Officials also discussed pending U.S. and Mexican farm legislation, biotechnology, and a number of sanitary and phytosanitary issues.

#### National Teachers? Strike Fizzles

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¶4. (SBU) For some time the CNTE, a non-conformist faction within the National Teachers' Union (SNTE), has been organizing a national strike to protest the Mexican government's late March approval of a pension (and health care) reform law for federal civil servants. The strike, which finally took place on May 7, was supposed to shut down schools all over Mexico and CNTE reportedly told the media that the labor action could go on indefinitely. PRD politicians in the lower house of the Mexican Congress predicted that violence could breakout if the reform law was not changed. When the strike actually took place it was far from the national work stoppage the CNTE had advertised and in fact was only noticeable in 6 states. The starkly limited results of this ?national? strike is both a commentary on the mixed feelings Mexicans have about the pension reform law (ISSSTE) and the poor state of inter-union relations in Mexico's organized labor movement.

#### State Public Finance Success

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¶5. (U) The upcoming bond sale reported in Mexico 2202 occurred as expected on May 10, and was a major success. The total amount of the sale was Mexican pesos 2,450,000,000 (USD \$226,851,851). The state revolving fund for the state of Hidalgo received offers from over 20 institutions for Mexican pesos 6.8

billion, demand exceeding supply by roughly 2.7 times. The spread is 14 basis points lower than the previous record rate for a bond issuance by the state of Chihuahua. The Hidalgo state treasurer's office told USAID that they are thrilled with the result, and very appreciative of the support they received through the US Embassy for this effort to provide states and municipalities with greater sources of financing. Thanks to USAID technical assistance provided through Evensen Dodge, the bond issuance was rated at AAA.Mx, Mexico's highest rating. Since the bond rating for the state of Hidalgo is only A.Mx, the state of Hidalgo, its municipalities and parastatal enterprises can now obtain financing under more favorable terms through this new state revolving fund.

#### Supreme Court Considers Changes to Televisa Law

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16. (U) Last year, 47 Senators filed a constitutional challenge to the so-called Televisa Law, changes to the Federal Radio and Television Law passed by the Mexican Senate in April 2006 (Refs A and B). The Supreme Court will finally hear the case behind closed doors on May 14-18. On May 21, the judges will meet with experts from several universities and organizations. This session will be broadcast on television. The judges' considerations will be based on a 500-page draft decision currently available on the web at <http://200.38.86.53/NR/rdonlyres/86289019-526 E-4A3E-89F4-15BDC8F0FECF/0/AccionInconstitucional262 006v1.pdf>. This draft proposes elimination of five articles. Among them is article 28, which favors the current oligopolies by stating that broadcasting companies that currently have spectrum (granted by the government to

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transfer from analogue to digital) can keep it without being obliged to pay any fee for the privilege. Another proposed change would eliminate the article that gives the Senate the power to reject Cofetel commissioners. That article was a partial implementation of an OECD recommendation to require a Congressional confirmation process for COFETEL commissioners. At the time it was passed, the bill was seen by some experts as making some progress toward modernizing telecommunications, such as allowing for public auctions of frequencies. Others expressed concern that community stations unable to bid on frequencies would be pushed off the air. Many experts criticized the bill for failing to eliminate unfair practices, and leaving power with the oligopolies that dominate telecom and broadcasting in Mexico. (See Septel for additional reporting.)

Garza